Becoming a CEO: How the growing popularity of search funds led a former Central Mass. banker to expand his business into Shrewsbury

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By Sara Bedigian

Shaun Stimpson always envisioned himself owning a business.

So, he decided at 44 years old to leave his job in the banking industry and set out on a new career path: to find, acquire, and run a business through a search fund.

A search fund is when investors financially support often inexperienced entrepreneurs' efforts to locate, acquire, manage, and grow a privately-owned business, according to Stanford Graduate School of Business. Irv Grousbeck, who is former co-owner of the Boston Celtics and adjunct professor at Stanford, created the search fund in 1984.

Search funds, by the numbers

Averages for search funds in 2022-2023

Length of search before a search fund makes an acquisition: 20 months

Acquisition price: $14.4 million

Company revenues at time of acquisition: $6.7 million

Company employees at time of acquisition: 34

First-year CEO base compensation: $200,000

Source: Stanford Graduate School of Business, 2024 Search Fund Study

A bio box for search funds

The number of search funds remains relatively low, as Stanford identifies 681 formed in the U.S. and Canada since 1984, although the number appears to be climbing. A record number of 94 core search funds launched in 2023, the last year with available data. Nine companies in Massachusetts have been acquired by search funds.

Stimpson had one search investor who funded his 18-month search to find a business to acquire. When looking for a business, Stimpson focused nationally in the industrial distribution space, eventually buying Syracuse-based Mitten Fluidpower in 2022.

When looking for companies, Stimpson said he wanted a company that was already well established, so he could quickly learn the knowledge base and get up to speed on the products and pricing.

“The learning curve wasn't that steep, and it was mainly because I knew they were already running the day to day. They just lacked the kind of the strategy of how to grow,” Stimpson said.

He has worked to bring marketing strategies using social media and other avenues to culminate growth in the three businesses he owns today: Mitten, Frank Murken in Schenectady, New York, and FLN-MAR Rubber and Plastics in Holyoke.

Stimpson, who worked in Worcester for Morgan Stanley at 100 Front St. from 2008 to 2012, is now planning on expanding his businesses into Central Massachusetts. He has seen the city go through a resurgence of growth, one of the reasons why he wants to put a satellite FLN-MAR location in Shrewsbury, right outside of Worcester.

The FLN-MAR location in Shrewsbury will open this fall. He decided to expand into Central Massachusetts for the growth potential of the area and to provide better service to its existing customer base. Since FLN MAR already has a base of customers in that area, with a local location, he plans to be a stronger resource to them.

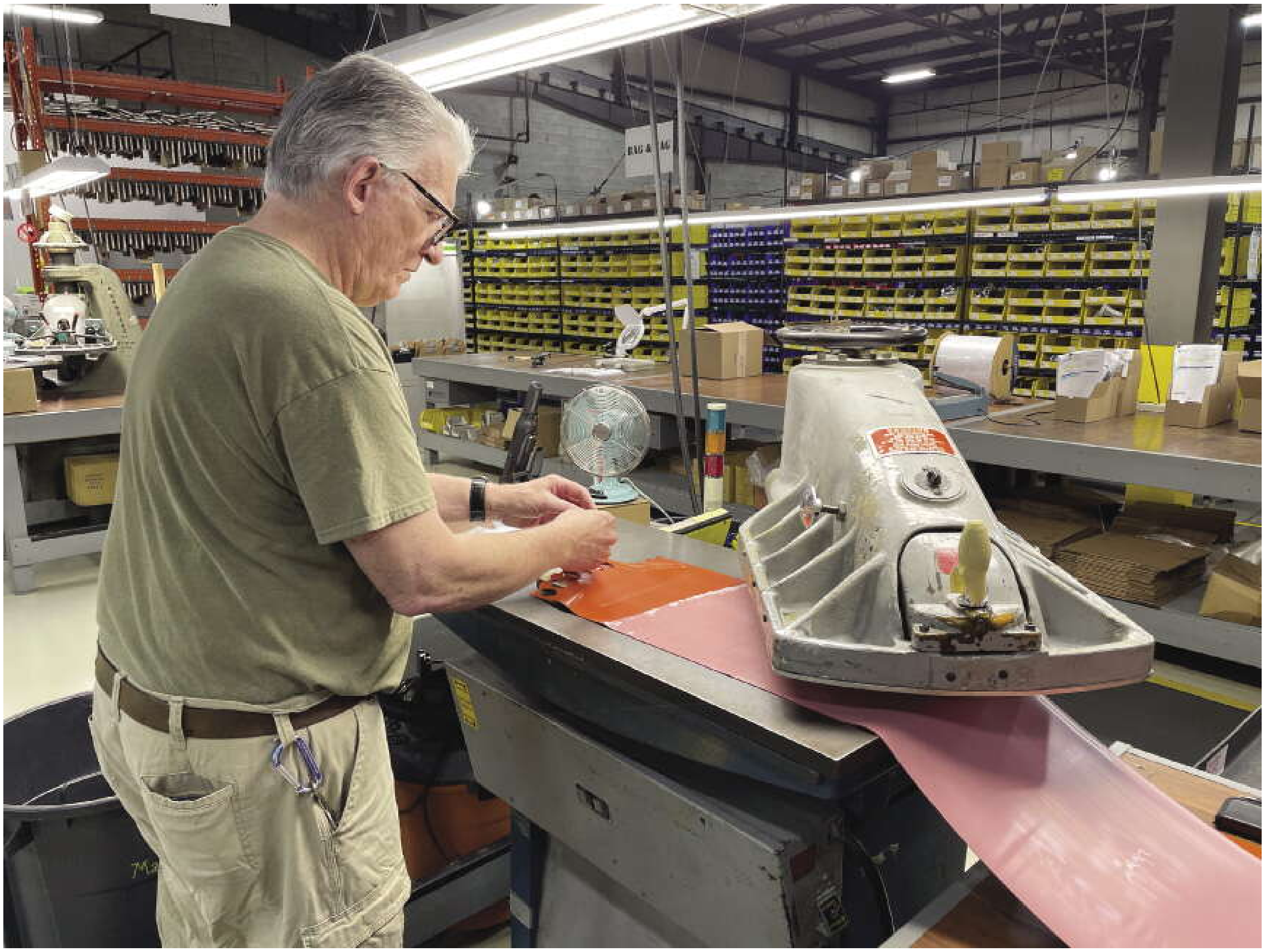

Photo | courtesy of Mitten Fluidpower

Mitten Fluidpower has merged with a Holyoke firm.

The appeal of search funds

Search funds allow recent business graduates the opportunity to become a CEO right out of school.

As opposed to starting a business from scratch, a searcher can take over an already developed company, with the backing of investors to gain entrepreneurship experience.

However, the process of searching and acquiring a pre-established business requires many steps. That is where advisors like Jim DeLeo, co-chair of Canton-based CPA firm Gray, Gray and Gray's transaction advisory services, come in.

Photo I Courtesy of Gray, Gray, and Gray

Jim DeLeo, co-chair of Canton-based CPA firm Gray, Gray, and Gray

“We'll help them make sure that the value they think they're acquiring is actually the value that they're acquiring,” DeLeo said. “And then we'll also give them insight and guidance … as well as what it's going to look like after they acquire the business.”

DeLeo said he is seeing many post-graduates going down the searcher route, due to growing search fund incubators at several schools including Harvard University, Massachusetts Institute of Technology, Babson College, and Stanford University.

The 2024 Search Fund Study by Stanford said 48% of new searchers in 2023 reported enrollment in an entrepreneurship-through-acquisition class, up from 37% in 2022.

The chance to turbo charge their careers by starting in the CEO seat at a young age is another attraction for new business school graduates, said DeLeo.

Investors & search funds

Most searchers go out to find an investor to fund their salary for a couple years while they look for a business to acquire, and then look for investors who will fund their acquisition. Investors are often a safety net of professionals with experience who can provide coaching, which looks more appealing to businesses, said DeLeo.

This was the case for Stimpson who had one investor fund his search, and then went to look for additional investors when he was ready to buy Mitten. He put out a message on LinkedIn, and people stepped up and wanted to invest, he said.

“Raising the money was actually the easiest part,” Stimpson said. “If you find the right company and structure the transaction the right way, like me, that could be the easiest part of the process.”

DeLeo has worked with both types of searchers, those with and without investors, and his CPA firm's primary role is to be the eyes and ears from a financial perspective on those deals.

Photo I Courtesy of Heritage Holding

Ross Porter, founder of Heritage Holding

Ross Porter and his partner Alex de Pfyffer had a different approach. Porter and Pfyffer saved up the money and searched for a business without an investor once they graduated Harvard Business School in 2015.

Porter and de Pfyffer bought their first company in 2016, and over the last 10 years, have acquired around 40 businesses across 10 different industries through their Boston-based small business investment firm Heritage Holding.

Porter said he and de Pfyffer have been involved in the search fund community, setting up a small fund to become investors for searchers and going back to Harvard to talk to business students.

The growing popularity

After minimal growth in 2021 and 2022, there was a significant increase in the number of new search funds in 2023, according to the Stanford Business School 2024 Study. No single factor drove this; however, increased education about the model and growing amounts of investor capital may have attracted more entrepreneurs to search, the study said.

Porter said search funds are growing in popularity since it is a lucrative career: It gives flexibility in one's life, and if successful, financially provides more money than a career in a big corporate setting or a consulting path would.

"The more people that succeed in this, the more potential searchers go out and learn that this path might not be as risky as it seems," Porter said.

Searchers are looking for a good business to jump in and run, which is the biggest difference between a searcher and a private equity firm, DeLeo said. The ideal situation for a searcher is to find a business that someone has been running their whole life and who can provide institutional knowledge about the industry before the searcher takes over and grows it.

“Growing a business is a fascinating journey, and it provides a lot of opportunity and challenges,” DeLeo said. “That's what excites a lot of these searches, which is the opportunity not just to acquire the business and monitor its success, but to actually be an integral part of day-to-day management.”

Photo I Courtesy of Mitten Fluidpower

Mitten Fluidpower specializes in hydraulic equipment.

Not just college graduates

The median age of a typical searcher was 31 in 2022 and 2023, according to the Search Fund Study by Stanford. While more universities are growing search fund incubators, older people like Stimpson go into search too.

Stimpson went into searching with having a family and a mortgage, which he said was a big leap for him. Instead of creating a business from scratch, he chose to go down the search path due to financial need to support his family.

“I needed to make sure that I had all my ducks in a row,” Stimpson said. “This was my chance to take the training wheels off and see if I can do this on my own.”

Stimpson had many people who supported and helped him throughout his journey, like DeLeo and Porter, and now he is trying to give back to others who are starting their search.

“I am always trying to pay it forward and help other people that are in the same boat,” Stimpson said.